

General Information

These guidelines include information related to:

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A. Definition for Indirect Costs

Indirect costs are incurred for common or joint objectives and cannot be readily identified with a particular grant, contract or other activity of the organization. Reimbursement of indirect costs on DOL programs will generally be made through the mechanism of an indirect cost rate. An indirect cost rate is:

- a device for determining fairly and conveniently, within the boundaries of sound administrative cost principles, what proportion of indirect cost each one of the entity programs or funding sources should bear.
- the ratio between the total indirect expenses and some direct cost base.

An indirect cost rate is established on the basis of an indirect cost proposal and supporting documentation submitted by an organization to the DOL, Division of Cost Determination.

B. Types of Indirect Rates

A variety of indirect cost rates are available, such as provisional, final, predetermined and fixed, which are described below:

1. **Provisional Rate**: A temporary rate established for a future prospective period of time to permit budgeting, obligations, and payment of funds by awarding agencies until such time as the actual indirect costs can be determined and a final rate is established. Provisional rates are subject to adjustment by issuance of a final rate based on actual indirect costs incurred for the period (usually the organization's fiscal year).
2. **Final Rate**: A final indirect cost rate is established after an organization's actual costs for a given accounting period (normally its fiscal year) are known. Once established, a final indirect cost rate is used to adjust the indirect costs initially claimed based on provisional rates in grant/contract expenditure reports. The adjustment to actual costs is effective for the period in which the actual costs have been incurred and therefore cannot be determined until the end of the period.

The use of provisional/final rates will likely result in final audited expenditures being higher or lower than reported for awards that terminate during the organization's fiscal year. A final rate may be issued as a provisional rate in the ensuing year, adjusted for anticipated changes in funding levels or costs.

3. Predetermined Rate: A permanent rate established for a specified current or future period and is not subject to adjustment. A predetermined rate may be used on awards where there is reasonable assurance that the rate is not likely to exceed a rate based on the organization's actual costs;
4. Fixed Rates with carry-forward: A permanent rate established for a future prospective period of time to permit budgeting, obligations, and payment of funds by awarding agencies. Actual costs are determined by the organization's accounting system and the difference between fixed and actual is carried forward to a future period (usually the organization's fiscal year) in order to adjust the fixed rate for any over or under recovery.

The provisional/final rate is preferable for most organizations for the following reasons:

1. Actual indirect costs are allocated to program objectives in the year incurred, creating accurate cost information;
2. There are no prior year indirect costs carried into a future year burden new or continuing funding;
3. All indirect costs are properly funded in the fiscal year incurred, creating no profit or loss for the organization;
4. The organization's accounting system must determine actual costs each year, a capability that ultimately must exist to synchronize accounting, budgeting, and cost allocation; and
5. The actual cost of services or programs is determined annually and is therefore available for purposes of internal management and informed budgeting.

C. Determination of Indirect Cost Rates and Cost Allocation

Non – Profits - The three basic methods for calculating indirect cost rates under OMB Circular A-122 are the:

- Simplified,
- Multiple Rate, and
- Direct Allocation methods.

Specific instructions on the computation of indirect cost rates with the conditions on when to use each method are contained in OMB Circular A-122, Attachment A. Examples of the Simplified and Direct Allocation methods are shown on Exhibits D and F in Section III in our website.

OMB Circular A-122 also provides for the use of Special Indirect Cost Rates. A single indirect cost rate for all activities of the organization may not be appropriate when work under the Federal program is conducted in an offsite location and the level of administrative support is different than other programs.

For – Profits – Most for profit organizations use the Simplified method. These organizations can follow Exhibit D, if applicable, using the guidelines available in OMB Circular A-122.

Non – Profits – For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect costs into two components; **Facilities and Administration**, as defined below, is required. The rate shall be stated as a percentage which the amount of **Facilities and Administration** is, of the applicable distribution base used for each component. Each indirect cost rate negotiation agreement shall identify the development of each indirect cost pool component as well as the overall indirect cost rate.

1. **"Facilities"** is defined as depreciation and use allowances on buildings, equipment and capital improvements; interest on debt associated with certain buildings, equipment and capital improvements; and operations and maintenance expenses.
2. **"Administration"** is defined as general administration and general expenses such as the director's office, accounting, personnel, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities", (including cross allocations from other pools, where applicable).

When a grantee uses the **Direct Allocation** method to calculate indirect cost rates and rents the facilities used to operate Federal programs, then a breakout of the above indirect cost components is not required. This policy has been adopted since the majority of the rental costs, as well as other facilities/administration costs, would be direct charged to Federal programs.

D. Submissions of Indirect Cost Proposals

Prior to the preparation of an indirect cost rate proposal and supporting documentation, the following cost principles should be review to determine if the costs proposed are reasonable, allowable, and allocable to the Federal government:

Non-profit organizations OMB Circular A-122

For-profit organizations Federal Acquisition Regulations (Part 31)

An indirect cost proposal, together with supporting documentation listed in Section II.C. must be developed and submitted on an annual basis to DCD no later than six months after the close of the non-profit organization's fiscal year, unless an exception is approved by the DCD. For organizations with no prior approved indirect cost rate, the proposal must be submitted no later than three months after the effective date of the DOL award.

The indirect cost rate proposal is to be submitted to the DCD office that covers the geographical region in which the organization is located (see Appendix V for addresses, telephone, and fax numbers).

E. Approval of Indirect Cost Proposals

Unless different arrangements are agreed to by the agencies concerned, the Federal agency with the largest dollar value of awards with an organization will be designated as the cognizant agency for the negotiation and approval of the indirect cost rates.

The DCD will negotiate and approve indirect cost rates when the DOL is the cognizant Federal agency. Indirect costs can only be charged to a grant or contract based on an Indirect Cost Negotiation Agreement approved by DCD. The approval of indirect costs by OCD is not intended to identify the circumstances or dictate the extent of Federal participation in the financing of particular grants or contracts.

F. Indirect Cost Negotiation Agreement

The approval will be formalized by a rate agreement signed by the Chief, DCD (or its designee) and an authorized representative of the organization. Each agreement will include:

1. The approved rate(s) and information directly related to the use of the rates, e.g., type of rate, effective period, and distribution base;

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2. The treatment of fringe benefits as either direct and/or indirect costs, or an approved fringe benefit rate;
3. General terms and conditions; and
4. Special remarks, e.g., composition of the indirect cost pool.

A sample copy of the agreement used by the DOL is shown as Appendix IV of this Guide.

G. Disputes

When the DCD and a grantee/contractor cannot reach an agreement on an acceptable indirect cost rate, the DCD will make a unilateral determination of the rate(s) and will notify the organization. The DCD or the program/contract officer will advise the organization of its right to appeal the determination and the appeal procedures to follow. Organizations are required to prepare and submit their initial indirect cost rate proposals and supporting documentation when requested to support the distribution of any indirect costs claimed.

After the initial submission, organizations are required to submit a final indirect cost rate proposal and/or cost allocation plan to the cognizant Federal agency within 180 days after expiration of their fiscal year.

H. Reimbursement of Indirect Costs

Reimbursement of indirect cost is subject to the availability of funds, statutory and administrative restrictions, and the approval of the DOL Grant/Contract Officer or authorized representative. For non-profit organizations - indirect costs must comply with the requirements established in OMB Circular A-122, Attachment A, on reasonableness, allocability, allowability, consistency, applicable credits and other criteria. For profit organizations – indirect costs must comply with the requirements established in FAR – Part 31.

Some DOL grants and contracts include ceilings on the reimbursement of indirect costs and/or administrative costs. When the amount otherwise allocable as indirect costs exceeds the amount allowable under the terms and conditions of the grant/contract agreement, the excess amount may be used to satisfy cost-sharing or matching requirements. However, the differences may not be shifted to another Federal grant or contract unless specifically authorized by legislation.

I. Retention of Records

In accordance with the provisions of the FAR (Subpart 4.703-for profit organizations) and OMB Circular A-110 (Subpart C. 95.53) Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations, provides that records shall be retained for 3 years as follows:

- If the indirect cost rate proposal, cost allocation plan, or other computation **is** to be submitted to the Federal Government (or to the grantee) to form the basis for negotiation of a rate(s), then the 3-year retention period for its supporting records starts from the date of such submission.
- If the above types of documents **are not required** to be submitted to the Federal Government for negotiation purposes, then the 3-year retention period for its

supporting records starts from the end of the fiscal year (or other accounting period) covered by the indirect cost rate proposal, cost allocation plan, or other computation.

If any litigation, claim or audit is started before the expiration of the 3-year period, the records shall be retained until all litigations, claims or audit findings involving the records have been resolved.